

LAKE PARK MUNICIPAL UTILITIES

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL
INFORMATION AND FINDINGS**

JUNE 30, 2005

David A. Maske
Certified Public Accountant
Spencer, Iowa 51301

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LAKE PARK MUNICIPAL UTILITIES
LAKE PARK, IOWA

JUNE 30, 2005

BEFORE JANUARY, 2005

OFFICIALS

NAME	TITLE	TERM EXPIRES
Steve Krummem	Trustee (Chairman)	12/31/2004
Stan Anderson	Trustee (Board Secretary/Treasurer)	12/31/2008
John Engel	Trustee	12/31/2007
Marie Matthiesen	Trustee	12/31/2009
Brent Jacobsen	Trustee	12/31/2006

AFTER JANUARY, 2005

Stan Anderson	Trustee (Chairman)	12/31/2008
Marie Matthiesen	Trustee (Vice Chairman)	12/31/2009
John Engel	Trustee (Board Secretary/Treasurer)	12/31/2007
Brent Jacobsen	Trustee	12/31/2006
Joni Roslansky	Trustee	12/31/2010
Bradley Brinkman	Utility Manager	
Roberta Thorn	Municipal Clerk	

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Lake Park Municipal Utilities
Lake Park, Iowa

I have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the electric, water, and gas funds of the Lake Park Municipal Utilities as of June 30, 2005, and for the year then ended. These financial statements are the responsibility of the Utilities management. My responsibility is to express an opinion on these financial statements based on my audit.

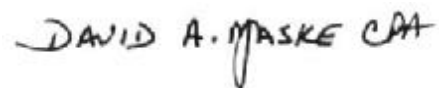
I conducted the audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly in all material respects the financial position of the electric, water, and gas funds of the Lake Park Municipal Utilities at June 30, 2005, and the results of those funds' operations and changes in cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated November 3, 2005, on my consideration of Lake Park Municipal Utilities' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with General Auditing Standards, and should be considered in accessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 4 and page 15 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion of the financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



DAVID A. MASKE
Certified Public Accountant

November 3, 2005
Spencer, Iowa

LAKE PARK MUNICIPAL UTILITIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

Lake Park Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Operating revenue of the Utility-wide activities increased 14.6%, or approximately \$259,400 from fiscal 2004 to fiscal 2005.
- Operating expenses increased 9.8%, or approximately \$161,800 in fiscal 2005 from fiscal 2004.
- The Utilities' total net assets increased 87%, or approximately \$2,677,500 from June 30, 2004 to June 30, 2005. Total liabilities increased 360% or approximately \$2,545,700. Both increases were related to the bond issue and capital project.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Utilities' basic financial statements consist of balance sheets, statements of revenue, expenses and changes in retained earnings and states of cash flows. The statements provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the Utilities' funds.

Basis of Accounting

The Utilities maintains its financial records on accrual basis and the financial statements of the Utilities are prepared on that basis.

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better off or worse off as a result of the year's activities?" The Balance Sheets report information which helps answer this question.

The Balance Sheets presents the Utilities' net assets. Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Financial Statements

The required financial statements include a statement of revenue, expenses and changes in retained earnings.

UTILITY WIDE FINANCIAL ANALYSIS

A summary of the changes in retained earnings follows:

		Year ended June 30,	
		2005	2004
Revenue:			
Electric Utility		\$ 774,084	\$ 685,522
Water Utility		161,506	165,290
Gas Utility		1,105,420	930,821
Interest		31,527	17,188
Other		<u>47,358</u>	<u>15,333</u>
Total Revenue		<u>\$ 2,119,895</u>	<u>\$ 1,814,154</u>
Expenses:			
Electric Utility		\$ 848,247	\$ 697,845
Water Utility		195,507	177,479
Gas Utility		<u>944,374</u>	<u>877,921</u>
Total Expenses		<u>\$ 1,988,128</u>	<u>\$ 1,753,245</u>
Net Income (Loss)		\$ 131,767	\$ 60,909
Retained Earnings - Beginning of Year		<u>2,338,188</u>	<u>2,277,279</u>
Retained Earnings - End of Year		<u>\$ 2,469,955</u>	<u>\$ 2,338,188</u>

BUDGETARY HIGHLIGHTS

Over the course of the year, the Utilities' did not exceed it's budget.

DEBT ADMINISTRATION

At June 30, 2005, the Utilities' has \$2,800,000 in bonds and notes outstanding, compared to \$245,000 last year.

The Utilities' redeemed \$30,000 in debt during the year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives.

BASIC FINANCIAL STATEMENTS

LAKE PARK MUNICIPAL UTILITIES**BALANCE SHEETS**

JUNE 30, 2005

ASSETS

	ELECTRIC FUND	WATER FUND	GAS FUND
CURRENT ASSETS:			
Cash and Cash Equivalents	\$ 313,470	\$ 0	\$ 460,922
Accounts Receivable - Net	95,188	16,335	77,126
Accrued Interest Receivable	2,264	0	322
Inventories	135,573	17,654	24,385
Prepaid Expenses	8,229	1,516	2,057
TOTAL CURRENT ASSETS	\$ 554,724	\$ 35,505	\$ 564,812
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	\$ 2,834,243	\$ 1,052,449	\$ 199,954
OTHER ASSETS:			
Bond Costs – Net	\$ 60,224	\$ 5,331	\$ 0
Notes Receivable	144,409	0	11,909
TOTAL OTHER ASSETS	\$ 204,633	\$ 5,331	\$ 11,909
RESTRICTED ASSETS:			
Revenue Bond Funds	\$ 265,000	\$ 29,817	\$ 0
TOTAL ASSETS	\$ 3,858,600	\$ 1,123,102	\$ 776,675

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:			
Cash Deficit	\$ 0	\$ 251,576	\$ 0
Accounts Payable	79,798	5,064	84,153
Accrued Sales, Use, & Payroll Taxes Payable	1,787	850	0
Accrued Salaries and Vacation Payable	4,890	3,560	4,512
Accrued Interest Payable	0	643	0
Customer Meter Deposits	3,215	1,246	4,549
Current Portion Long-Term Debt	95,000	30,000	0
TOTAL CURRENT LIABILITIES	\$ 184,690	\$ 292,939	\$ 93,214
LONG-TERM DEBT:			
Revenue Capital Notes Payable	\$ 2,585,000	\$ 215,000	\$ 0
LESS – Current Portion Above	95,000	30,000	0
TOTAL LONG-TERM DEBT	\$ 2,490,000	\$ 185,000	\$ 0
FUND EQUITY:			
Contributed Capital - City of Lake Park	\$ 0	\$ 42,579	\$ 0
Retained Earnings - Restricted	265,000	29,817	0
Retained Earnings - Unrestricted	918,910	572,767	683,461
TOTAL FUND EQUITY	\$ 1,183,910	\$ 645,163	\$ 683,461
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,858,600	\$ 1,123,102	\$ 776,675

See Accompanying Notes to Financial Statements.

LAKE PARK MUNICIPAL UTILITIES
STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	ELECTRIC FUND	WATER FUND	GAS FUND
Utilities Revenue	\$ 774,084	\$ 161,506	\$ 1,105,420
OPERATING EXPENSES:			
PRODUCTION AND DISTRIBUTION EXPENSES:			
Association Dues	\$ 5,751	\$ 2,685	\$ 5,192
Depreciation	87,146	68,443	17,600
Energy Conservation Program Expense.....	87	0	1,594
Insurance - Employees	12,546	2,020	9,039
Miscellaneous	560	384	2,262
Payroll Taxes and IPERS.....	17,407	2,724	11,474
Repairs, Maintenance, and Supplies	7,202	7,968	5,673
Payroll	132,135	20,346	86,725
Truck Expense	10,388	4,480	6,764
Power, Water, and Gas Purchase	394,203	53,234	744,429
Meter Testing and Repair.....	1,313	520	652
TOTAL PRODUCTION AND DISTRIBUTION EXPENSES	\$ 668,738	\$ 162,804	\$ 891,404
GENERAL AND ADMINISTRATIVE EXPENSES:			
Conventions and Training	\$ 3,225	\$ 567	\$ 5,194
Insurance and Bonds	14,606	6,046	5,374
Office Expenses	2,692	1,011	3,063
Other General and Administrative Expenses.....	10,336	8,052	11,242
Legal and Accounting Fees.....	5,678	2,190	3,827
Telephone	3,760	2,170	3,428
Trustee Fees	835	541	835
Engineering Fees	0	0	0
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 41,132	\$ 20,577	\$ 32,963
TOTAL OPERATING EXPENSES	\$ 709,870	\$ 183,381	\$ 924,367
OPERATING INCOME	\$ 64,214	\$ (21,875)	\$ 181,053
OTHER INCOME (EXPENSE):			
Interest Income	\$ 27,067	\$ 942	\$ 3,518
Miscellaneous Income.....	38,794	5,913	2,651
Economic Development Contribution.....	(18,985)	0	(11,250)
Interest Expense	(89,104)	(9,108)	(2)
Bond Expense	(3,286)	(1,289)	0
Bad Debts	0	0	0
Payments in Lieu of Property Taxes	(27,002)	(1,729)	(8,755)
TOTAL OTHER INCOME (EXPENSE)	\$ (72,516)	\$ (5,271)	\$ (13,838)
NET INCOME (LOSS)	\$ (8,302)	\$ (27,146)	\$ 167,215

See Accompanying Notes to Financial Statements.

LAKE PARK MUNICIPAL UTILITIES
STATEMENTS OF CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2005

	ELECTRIC FUND	WATER FUND	GAS FUND
Retained Earnings - July 1, 2004	\$ 1,192,212	\$ 629,730	\$ 516,246
Net Income (Loss).....	<u>(8,302)</u>	<u>(27,146)</u>	<u>167,215</u>
 RETAINED EARNINGS - June 30, 2005	 <u>\$ 1,183,910</u>	 <u>\$ 602,584</u>	 <u>\$ 683,461</u>

See Accompanying Notes to Financial Statements.

LAKE PARK MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005

	ELECTRIC FUND	WATER FUND	GAS FUND
CASH PROVIDED FROM OPERATIONS:			
Net Income (Loss)	\$ (8,302)	\$ (27,146)	\$ 167,215
Adjustments for Non-Cash Items:			
Depreciation and Amortization	<u>89,788</u>	<u>69,330</u>	<u>17,601</u>
	<u>\$ 81,486</u>	<u>\$ 42,184</u>	<u>\$ 184,816</u>
ADJUSTMENTS FOR WORKING CAPITAL CHANGES:			
Decrease (Increase) in Accounts Receivable	39,671	5,161	23,941
Decrease (Increase) in Accrued Interest Receivable	48	263	6
Decrease (Increase) in Inventory	7,550	930	(2,177)
Decrease (Increase) in Prepaid Expenses	(107)	76	861
Increase (Decrease) in Accounts Payable	(37,306)	209	19,339
Increase (Decrease) in Accrued Taxes Payable	(451)	(211)	(694)
Increase (Decrease) in Salaries & Vacation Payable	(2,946)	(75)	877
Increase (Decrease) in Accrued Interest Payable	0	(112)	0
Increase (Decrease) in Customer Meter Deposits	<u>(537)</u>	<u>26</u>	<u>187</u>
CASH PROVIDED FROM (USED BY) OPERATIONS	<u>\$ 87,408</u>	<u>\$ 48,451</u>	<u>\$ 227,156</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in Note Receivable	\$ 23,500	\$ 0	\$ 0
Acquisition of Fixed Assets	<u>(2,238,651)</u>	<u>(29,745)</u>	<u>(33,835)</u>
NET CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES	<u>\$ (2,215,151)</u>	<u>\$ (29,745)</u>	<u>\$ (33,835)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment on Long Term Debt	\$ 0	\$ (30,000)	\$ 0
Long Term Debt Issued – Net	<u>2,522,135</u>	<u>0</u>	<u>0</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>\$ 2,522,135</u>	<u>\$ (30,000)</u>	<u>\$ 0</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ 394,392	 \$ (11,294)	 \$ 193,321
CASH AND CASH EQUIVALENTS - BEGINNING	<u>184,078</u>	<u>(210,465)</u>	<u>267,601</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 578,470</u>	<u>\$ (221,759)</u>	<u>\$ 460,922</u>
 Interest Paid for the Year Ended June 30, 2005	 <u>\$ 89,104</u>	 <u>\$ 8,996</u>	 <u>\$ 0</u>

See Accompanying Notes to Financial Statements.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY - The financial statements include the enterprise funds of Electric, Water, and Gas which provide services to the residents of the City of Lake Park. The Lake Park Municipal Utilities is governed by a five-member board of trustees which is appointed by the Mayor and approved by the City Council of the City of Lake Park. Based on the criteria set forth by the Governmental Accounting Standards Board, the Lake Park Municipal Utilities is considered a component unit of the City of Lake Park. However, the City's report does not include financial information concerning the Utilities. Lake Park Municipal Utilities has no component units which meet the requirements of inclusion as set forth by GASB No. 14.

FUND ACCOUNTING - The accounts of the Lake Park Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Lake Park Municipal Utilities maintains its records and prepares its financial statements on the accrual basis of accounting.

INVENTORIES - Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis.

ACCOUNTS RECEIVABLE - Accounts receivable and revenue are recorded at the time that service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. Bad debts are provided for through an allowance for doubtful accounts.

BUDGETS AND BUDGETARY ACCOUNTING - Starting with the fiscal year ending June 30, 1991, the Board of Trustees submits an annual budget independent from the City of Lake Park.

CASH AND CASH EQUIVALENTS - For the purposes of the statement of cash flows, the Utilities considers as cash and cash equivalents all currency on hand, demand deposits with banks or other financial institutions, certificates of deposits with an original maturity of one year or less, and other accounts that have the general characteristics of demand deposits in that the Utilities may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INCOME TAXES - Lake Park Municipal Utilities is exempt from Federal and State income taxes.

NOTE 2 - ACCOUNTS RECEIVABLE:

Accounts Receivable are reported net of allowance for doubtful accounts as follows:

	ELECTRIC FUND	WATER FUND	GAS FUND
Accounts Receivable - Customers	\$ 96,322	\$ 16,982	\$ 81,526
LESS - Allowance for Doubtful Accounts	<u>1,134</u>	<u>647</u>	<u>4,400</u>
Accounts Receivable - Net	<u>\$ 95,188</u>	<u>\$ 16,335</u>	<u>\$ 77,126</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized. The Utility has accounted for existing infrastructure through the use of the above valuation report.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and Plant-----	20-50
Equipment -----	5-20
Distribution System -----	20-67

A summary of changes in fixed assets is as follows:

	BALANCE AT JULY 1, 2004	ADDITIONS	DELETIONS	BALANCE AT JUNE 30, 2005
-----ELECTRIC FUND-----				
Land and Improvements	\$ 2,000	\$ 0	\$ 0	\$ 2,000
Plant and Distribution System	1,509,502	2,102,000	0	3,611,502
Equipment and Fixtures	364,793	136,651	0	501,444
TOTAL	\$ 1,876,295	\$ 2,238,651	\$ 0	\$ 4,114,946
LESS - Accumulated Depreciation	(1,193,556)	(87,147)	0	(1,280,703)
NET	<u>\$ 682,739</u>	<u>\$ 2,151,504</u>	<u>\$ 0</u>	<u>\$ 2,834,243</u>
-----WATER FUND-----				
Land and Improvements	\$ 34,278	\$ 0	\$ 0	\$ 34,278
Plant and Distribution System	1,903,922	9,932	0	1,913,854
Equipment and Fixtures	160,111	19,813	0	179,924
TOTAL	\$ 2,098,311	\$ 29,745	\$ 0	\$ 2,128,056
LESS - Accumulated Depreciation	(1,007,165)	(68,442)	0	(1,075,607)
NET	<u>\$ 1,091,146</u>	<u>\$ (38,697)</u>	<u>\$ 0</u>	<u>\$ 1,052,449</u>
-----GAS FUND-----				
Land and Improvements	\$ 2,000	\$ 0	\$ 0	\$ 2,000
Plant and Distribution System	414,959	22,190	0	437,149
Equipment and Fixtures	170,009	11,645	0	181,654
TOTAL	\$ 586,968	\$ 33,835	\$ 0	\$ 620,803
LESS - Accumulated Depreciation	(403,248)	(17,601)	0	(420,849)
NET	<u>\$ 183,720</u>	<u>\$ 16,234</u>	<u>\$ 0</u>	<u>\$ 199,954</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 4 - LONG-TERM DEBT:

Water Fund

During the year ended June 30, 2002, the Utility issued Water Revenue Capital Loan Notes in the amount of \$300,000, for water utility capital improvements. The notes bear interest from 3.0% - 4.0%, and mature annually from June 1, 2002 to June 1, 2011.

The resolution providing for the issuance of the revenue notes provides for the creation of a Sinking Fund and a Reserve Fund. Funds will be set aside in the Sinking Fund in an amount sufficient to pay the annual principal and interest. Funds will be set aside in a Reserve Fund, to provide support to the Sinking Fund. At June 30, 2005, the Utility was in compliance with these fund requirements.

A summary of the Water Fund's June 30, 2005 indebtedness is as follows:

Year Ending <u>June 30,</u>	
2006	\$ 30,000
2007	35,000
2008	35,000
2009	35,000
Thereafter	<u>80,000</u>
Total	<u>\$ 215,000</u>

Electric Fund

During the year ended June 30, 2005 the Utility issued Electric Revenue Bonds in the amount of \$2,585,000, for electric capital improvements. The bonds bear interest from 3.0% -5.40%, and mature annually from June 1, 2006 to June 1, 2024.

The resolution providing for the issuance of the revenue bonds provides for the creation of a Sinking Fund, a Reserve Fund and an Improvement Fund, with funds set aside in each to pay, and support payment of, the principal and interest. At June 30, 2005, the Utility was in compliance with these fund requirements.

A summary of the Electric Fund's June 30, 2005 indebtedness is as follows:

Year Ending <u>June 30,</u>	
2006	\$ 95,000
2007	95,000
2008	100,000
2009	100,000
Thereafter	<u>2,195,000</u>
Total	<u>\$ 2,585,000</u>

A summary of the changes in long-term debt for the year ended June 30, 2005 is as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Due Dates</u>	<u>Balance 07/01/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 06/30/05</u>
Water Revenue							
Capital Loan Notes	\$ 300,000	3.0% - 4.0%	2005-2011	<u>\$245,000</u>	<u>\$ 0</u>	<u>\$ 30,000</u>	<u>\$ 215,000</u>
Electric Revenue							
Bonds	\$ 2,585,000	3.0% - 5.40%	2006-2024	<u>\$ 0</u>	<u>\$ 2,585,000</u>	<u>\$ 0</u>	<u>\$2,585,000</u>

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 5 - PENSION AND RETIREMENT BENEFITS:

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$13,210, \$14,073, and \$13,425, respectively, equal to the required contributions for each year.

NOTE 6 - DEPOSITS AND INVESTMENTS:

The Utilities deposits in banks at June 30, 2005, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected purchase agreement; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no investments at June 30, 2005.

**NOTE 7 - RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT
OF CASH FLOWS TO THE BALANCE SHEET:**

	BALANCE 7/1/2004	INCREASE (DECREASE)	BALANCE 6/30/2005
<u>ELECTRIC FUND:</u>			
Cash on Hand -----	\$ 175	\$ 0	\$ 175
Cash in Bank - Checking -----	88,650	138,926	227,576
Cash in Bank - Savings -----	253	0	253
Time CD's -----	<u>95,000</u>	<u>255,466</u>	<u>350,466</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 184,078</u>	<u>\$ 394,392</u>	<u>\$ 578,470</u>
<u>WATER FUND:</u>			
Cash in Bank - Checking (Deficit) -----	\$ (235,465)	\$ (12,359)	\$ (247,824)
Time CD -----	<u>25,000</u>	<u>1,065</u>	<u>26,065</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ (210,465)</u>	<u>\$ (11,294)</u>	<u>\$ (221,759)</u>
<u>GAS FUND:</u>			
Cash in Bank -----	<u>\$ 267,601</u>	<u>\$ 193,321</u>	<u>\$ 460,922</u>

NOTE 8 - COMPENSATED ABSENCES:

The Utilities' employees accumulated vacation, sick leave, and "comp time" hours for subsequent use. The employees receive payment for accumulated vacation and "comp time" hours upon termination, retirement, or death, and therefore the appropriate liability has been recorded on the Utilities' records.

The employees are not compensated for accumulated sick leave hours upon termination, retirement, or death.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 9 - INTEREST EXPENSE:

Interest costs are capitalized when incurred on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. The Utilities had no capitalized interest for the year ended June 30, 2005.

NOTE 10 - RISK MANAGEMENT

Lake Park Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - NOTES RECEIVABLE:

In 1991, Lake Park Municipal Utilities loaned NIDC Corp. of Lake Park, Iowa \$165,000. Interest is payable annually until 2002, at which time \$17,000 plus interest shall be due each and every year thereafter until fully paid. The loan is secured by a mortgage on the land and the building. If certain economic conditions are attained by NIDC Corp. within the next 4 to 9 years, a portion of the note, not to exceed \$80,000, may be forgiven. During the years ended June 30, 1996 and June 30, 2002, \$40,000 was forgiven each year.

With respect to the above note, Lake Park Municipal Utilities has agreed to finance the interest paid by NIDC Corp. by making contributions to the Lake Park Development Corporation, who in return, will provide NIDC Corp. with funds sufficient to service the interest.

Lake Park Municipal Utilities loaned \$165,000 to the City of Lake Park, Iowa in 1991. Interest is payable semi-annually, over the life of the loan, with annual principal payments of \$15,000 beginning June 1 of 2002 through 2007 and annual principal payments of \$20,000 on June 1, 2008 through 2010. The City will finance the note through the issuance of general obligation capital loan notes.

In 1995, Lake Park Municipal Utilities loaned \$30,000 to Silver Lake Apartments, Limited Partnership a housing project for senior citizens. The note is to be paid back over fifteen years at an annual interest rate of 3% and is due on September 1, 2010. The note is secured by the buildings, personal property and revenues of the partnership. The note's payments are amortized over twenty five years with the first year payment deferred, with the note to be paid in full in fifteen years. The payments are to be made from the partnership's surplus cash as defined in the promissory note.

Balance:		
Electric Fund:		
NIDC.....	\$	42,500
City of Lake Park		90,000
Silver Lake Apartments		11,909
TOTAL	\$	<u>144,409</u>
Gas Fund:		
Silver Lake Apartments	\$	<u>11,909</u>

NOTE 12 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK:

Lake Park Municipal Utilities grants credit to customers, all of whom are local residents.

NOTE 13 - RATES:

Rates of the Municipal Utilities of the City of Lake Park, Iowa are established by the Board of Trustees.

NOTE 14 - ECONOMIC DEVELOPMENT PAYMENTS:

By authorization of the Board of Trustees, funds were expended for economic development benefiting the City of Lake Park, Iowa and Lake Park Municipal Utilities.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2005

NOTE 15 - PAYMENTS IN LIEU OF PROPERTY TAXES:

By resolution of the Board of Trustees, voluntary payments in lieu of property taxes are made to the City of Lake Park, Iowa. Currently, payments approximate the City's utility usage.

REQUIRED SUPPLEMENTAL INFORMATION

LAKE PARK MUNICIPAL UTILITIES
BUDGETARY COMPARISON OF REVENUES, EXPENSES AND
CHANGES IN BALANCES
FOR THE YEAR ENDED JUNE 30, 2005

	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUE:			
Charges for Services.....	\$ 2,041,010	\$ 1,771,000	\$ 270,010
Non-Operating.....	<u>78,885</u>	<u>3,047,500</u>	<u>(2,968,615)</u>
TOTAL REVENUE	\$ 2,119,895	\$ 4,818,500	\$ (2,698,605)
EXPENSES:			
Business Enterprises	<u>\$ 1,988,128</u>	<u>\$ 4,128,660</u>	<u>\$ 2,140,532</u>
EXCESS (DEFICIENCY) OF REVENUE OVER DISBURSEMENTS.....	\$ 131,767	\$ 689,840	\$ (558,073)
FUND BALANCE - JULY 1, 2004	<u>2,338,188</u>	<u>2,348,187</u>	<u>(9,999)</u>
FUND BALANCE - JUNE 30, 2005	<u>\$ 2,469,955</u>	<u>\$ 3,038,027</u>	<u>\$ (568,072)</u>

See Accompanying Notes to Financial Statements.

LAKE PARK MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
JUNE 30, 2005

In accordance with the Code of Iowa, the Utilities annually adopts a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

OTHER SUPPLEMENTAL INFORMATION

LAKE PARK MUNICIPAL UTILITIES
COMPARATIVE BALANCE SHEETS
JUNE 30,

ASSETS

	-----ELECTRIC FUND-----		-----WATER FUND-----		-----GAS FUND-----	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:						
Cash and Cash Equivalents	\$ 313,470	\$ 184,078	\$ 0	\$ 0	\$ 460,922	\$ 267,601
Accounts Receivable - Net	95,188	134,859	16,335	21,496	77,126	101,067
Accrued Interest Receivable	2,264	2,312	0	263	322	328
Inventories	135,573	143,123	17,654	18,584	24,385	22,208
Prepaid Expenses	8,229	8,122	1,516	1,592	2,057	2,918
TOTAL CURRENT ASSETS	<u>\$ 554,724</u>	<u>\$ 472,494</u>	<u>\$ 35,505</u>	<u>\$ 41,935</u>	<u>\$ 564,812</u>	<u>\$ 394,122</u>
PROPERTY, PLANT AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	<u>\$ 2,834,243</u>	<u>\$ 682,739</u>	<u>\$ 1,052,449</u>	<u>\$ 1,091,146</u>	<u>\$ 199,954</u>	<u>\$ 183,720</u>
OTHER ASSETS:						
Bond Costs - Net	\$ 60,224	\$ 0	\$ 5,331	\$ 6,219	\$ 0	\$ 0
Notes Receivable	144,409	167,909	0	0	11,909	11,909
TOTAL OTHER ASSETS	<u>\$ 204,633</u>	<u>\$ 167,909</u>	<u>\$ 5,331</u>	<u>\$ 6,219</u>	<u>\$ 11,909</u>	<u>\$ 11,909</u>
RESTRICTED ASSETS:						
Revenue Bond Funds	\$ 265,000	\$ 0	\$ 29,817	\$ 28,677	\$ 0	\$ 0
TOTAL ASSETS	<u>\$ 3,858,600</u>	<u>\$ 1,323,142</u>	<u>\$ 1,123,102</u>	<u>\$ 1,167,977</u>	<u>\$ 776,675</u>	<u>\$ 589,751</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:						
Cash Deficit	\$ 0	\$ 0	\$ 251,576	\$ 239,142	\$ 0	\$ 0
Accounts Payable	79,798	117,104	5,064	4,855	84,153	64,814
Accrued Sales, Use & Payroll Taxes Payable	1,787	2,238	850	1,061	0	694
Accrued Salaries and Vacation Payable	4,890	7,836	3,560	3,635	4,512	3,635
Accrued Interest Payable	0	0	643	755	0	0
Customer Meter Deposits	3,215	3,752	1,246	1,220	4,549	4,362
Current Portion Long-Term Debt	95,000	0	30,000	30,000	0	0
TOTAL CURRENT LIABILITIES	<u>\$ 184,690</u>	<u>\$ 130,930</u>	<u>\$ 292,939</u>	<u>\$ 280,668</u>	<u>\$ 93,214</u>	<u>\$ 73,505</u>
LONG-TERM DEBT:						
Revenue Bonds and Capital Notes Payable	\$ 2,490,000	\$ 0	\$ 185,000	\$ 215,000	\$ 0	\$ 0
FUND EQUITY:						
Contributed Capital - City of Lake Park	\$ 0	\$ 0	\$ 42,579	\$ 42,579	\$ 0	\$ 0
Retained Earnings	1,183,910	1,192,212	602,584	629,730	683,461	516,246
TOTAL FUND EQUITY	<u>\$ 1,183,910</u>	<u>\$ 1,192,212</u>	<u>\$ 645,163</u>	<u>\$ 672,309</u>	<u>\$ 683,461</u>	<u>\$ 516,246</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 3,858,600</u>	<u>\$ 1,323,142</u>	<u>\$ 1,123,102</u>	<u>\$ 1,167,977</u>	<u>\$ 776,675</u>	<u>\$ 589,751</u>

LAKE PARK MUNICIPAL UTILITIES
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30,

	-----ELECTRIC FUND-----		-----WATER FUND-----		-----GAS FUND-----	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
UTILITIES REVENUE	\$ 774,084	\$ 685,522	\$ 161,506	\$ 165,290	\$ 1,105,420	\$ 930,821
OPERATING EXPENSES:						
PRODUCTION AND DISTRIBUTION EXPENSES:						
Association Dues	\$ 5,751	\$ 5,514	\$ 2,685	\$ 2,280	\$ 5,192	\$ 8,208
Depreciation	87,146	55,916	68,443	61,041	17,600	24,511
Energy Conservation Program Expense	87	146	0	0	1,594	0
Insurance - Employees	12,546	13,304	2,020	2,034	9,039	11,500
Miscellaneous	560	0	384	0	2,262	50
Payroll Taxes and IPERS	17,407	18,279	2,724	2,632	11,474	12,195
Repairs, Maintenance, and Supplies	7,202	9,503	7,968	4,940	5,673	11,565
Payroll	132,135	136,450	20,346	19,826	86,725	88,418
Truck Expense	10,388	6,113	4,480	2,667	6,764	4,126
Power, Water, and Gas Purchase	394,203	366,663	53,234	50,364	744,429	658,455
Meter Testing and Repair	1,313	2,960	520	683	652	753
TOTAL PRODUCTION AND DISTRIBUTION EXPENSES	<u>\$ 668,738</u>	<u>\$ 614,848</u>	<u>\$ 162,804</u>	<u>\$ 146,467</u>	<u>\$ 891,404</u>	<u>\$ 819,781</u>
GENERAL AND ADMINISTRATIVE EXPENSES:						
Conventions and Training	\$ 3,225	\$ 3,560	\$ 567	\$ 477	\$ 5,194	\$ 1,383
Insurance and Bonds	14,606	15,128	6,046	4,365	5,374	5,284
Office Expenses	2,692	1,741	1,011	687	3,063	3,237
Other General and Administrative Expenses	10,336	7,290	8,052	2,772	11,242	7,073
Legal and Accounting Fees	5,678	3,850	2,190	1,042	3,827	2,107
Telephone	3,760	3,316	2,170	2,510	3,428	2,511
Trustee Fees	835	856	541	428	835	856
Engineering Fees	0	4,249	0	0	0	0
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 41,132</u>	<u>\$ 39,990</u>	<u>\$ 20,577</u>	<u>\$ 12,281</u>	<u>\$ 32,963</u>	<u>\$ 22,451</u>
TOTAL OPERATING EXPENSES	<u>\$ 709,870</u>	<u>\$ 654,838</u>	<u>\$ 183,381</u>	<u>\$ 158,748</u>	<u>\$ 924,367</u>	<u>\$ 842,232</u>
OPERATING INCOME (LOSS)	<u>\$ 64,214</u>	<u>\$ 30,684</u>	<u>\$ (21,875)</u>	<u>\$ 6,542</u>	<u>\$ 181,053</u>	<u>\$ 88,589</u>
OTHER INCOME (EXPENSE):						
Interest Income	\$ 27,067	\$ 16,661	\$ 942	\$ 138	\$ 3,518	\$ 389
Miscellaneous Income	38,794	9,748	5,913	2,395	2,651	3,190
Economic Development Contribution	(18,985)	(11,250)	0	0	(11,250)	(11,250)
Interest Expense	(89,104)	0	(9,108)	(10,032)	(2)	0
Bond Expense	(3,286)	0	(1,289)	(1,189)	0	0
Bad Debts	0	(8,888)	0	(4,328)	0	(15,910)
Payments in Lieu of Property Taxes	(27,002)	(22,869)	(1,729)	(3,182)	(8,755)	(8,529)
TOTAL OTHER INCOME (EXPENSE)	<u>\$ (72,516)</u>	<u>\$ (16,598)</u>	<u>\$ (5,271)</u>	<u>\$ (16,198)</u>	<u>\$ (13,838)</u>	<u>\$ (32,110)</u>
NET INCOME (LOSS)	<u>\$ (8,302)</u>	<u>\$ 14,086</u>	<u>\$ (27,146)</u>	<u>\$ (9,656)</u>	<u>\$ 167,215</u>	<u>\$ 56,479</u>

DAVID A. MASKE

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Lake Park Municipal Utilities
Lake Park, Iowa

I have audited the financial statements of the Lake Park Municipal Utilities as of and for the year ended June 30, 2005, and have issued my report thereon dated November 3, 2005. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with U.S. generally accepted accounting principles. I conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Lake Park Municipal Utilities' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item 05-I-A is a material weakness. Prior year reportable conditions have been resolved except 05-I-A.

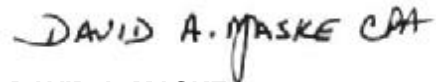
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake Park Municipal Utilities' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Utilities. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Lake Park and other parties to whom the Lake Park Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than those specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Lake Park Municipal Utilities during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



DAVID A. MASKE
Certified Public Accountant

November 3 2005
Spencer, Iowa

LAKE PARK MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that the cash receipts listing, bank deposits, the posting of the transactions to journals, and check signing are all done by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its operating procedures to obtain the maximum internal control possible under the circumstances. I recognize that the Board of Trustees takes an active interest in the review of monthly transactions, and recommend that this participation continues.

Response - We will continue reviewing procedures for additional control features.

Conclusion - Response accepted.

PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:

05-II-A Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements during the year ended June 30, 2005, did not exceed the amounts budgeted.

05-II-C Questionable Disbursements - I noted no expenditures that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.

05-II-E Business Transactions - I noted no business transactions between the Utilities and Utilities' officials or employees during the year.

05-II-F Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

05-II-G Board Minutes - No transactions were found that I believe should have been approved in the Trustee minutes but were not.

05-II-H Revenue Notes - The Utilities is in compliance with all requirements of the bond resolution, at June 30, 2005, including cash reserves.

05-II-I Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities' investment policies.